Appropriation Committee
Town of Lexington, Massachusetts

February 10, 2006

MESSAGE TO LEXINGTON VOTERS ON THE COMMUNITY PRESERVATION ACT

Summary

In the Town election on March 6th, voters will have the opportunity to consider adopting the Community Preservation Act (CPA). The Appropriation Committee offers the following information to help you understand the potential benefits and costs of the CPA, as well as other likely upcoming tax increases. We urge you to consider all of these factors and to reflect upon your own priorities for Lexington as you make your decision about the CPA. Whatever your conclusion, we urge you to cast your vote.

BENEFITS The CPA, if adopted, will provide two benefits:

1) It will provide Lexington with a **dedicated revenue stream** through an annual 3% surcharge on residential and commercial property taxes to be spent on eligible projects in the areas of historic preservation, affordable housing, preservation of open space, and recreation. The *CPA for Lexington* advocacy committee has estimated that over the next five years this surcharge will bring in a total of **$12.33 million**.

2) It will allow Lexington to receive **matching funds** from the State for the above projects, thus increasing the "buying power" of each dollar raised through the CPA surcharge. Based upon projections provided to *CPA for Lexington* by the *Massachusetts Community Preservation Coalition* regarding estimated future State-match percentages, Lexington could stand to receive an estimated **$8.06 million** in State funds to match the estimated $12.33 million in surcharges collected in the first five years the CPA is in effect.

CONSIDERATIONS

1) Generous exemptions for low-income households will allow homeowners making less than 80% of median income (100% if age 60 or older) to apply for a full refund of the CPA surcharge.

2) Some of the funds raised and matched through CPA could be used to support projects that would otherwise receive funding in the operating budget or through a debt-exclusion override. This would allow reductions in the size of some future tax increases. However, the CPA is primarily intended to support projects that might not otherwise receive funding when competing with other operating and capital budget priorities for existing revenues.

3) The CPA surcharge will be in addition to other increases in your property tax bill. In addition to the usual annual growth in single-family-home property taxes (projected at 5.3% for FYs 2007 & 2008), we anticipate that in June 2006 there will be a Proposition 2½ override referendum—effective in FY 2007. It is currently expected that between $3 million and $7 million will be requested for basic municipal and school services—services which will be lost if the override fails. In addition, a debt-exclusion override for reconstructing the Department of Public Works (DPW) facility and the School Administration Building will most likely be on the ballot in the spring of 2007. (If so, its earliest effect on taxes would be in FY 2009.)

4) The percentage at which the State will match our locally-collected CPA funds is projected to diminish from a level of 100% for 2007 to 39% for 2011 as more communities adopt CPA. (This is the basis for the projected $8.06 million 5-year State match.) The actual State match will vary from these projections depending upon the number of new communities adopting CPA, and due to other factors, including changes in the real-estate market (the primary source of State funds is a fee on real-estate transactions), or actions of the State legislature to alter the State's CPA-funding mechanism.

OUR FULL REPORT

We encourage you to read our full report, which follows, for details and examples of the projected financial impact of the CPA. It is also available outside the Town Clerk's office on the 1st floor of the Town Office Building, in the Cary Memorial Library, in the Senior Center, and on the web at http://www.lexingtontmma.org/ or http://ci.lexington.ma.us/ (follow the link for "Town Election March 6").

FULL REPORT OF THE APPROPRIATION COMMITTEE

CPA PROCESS

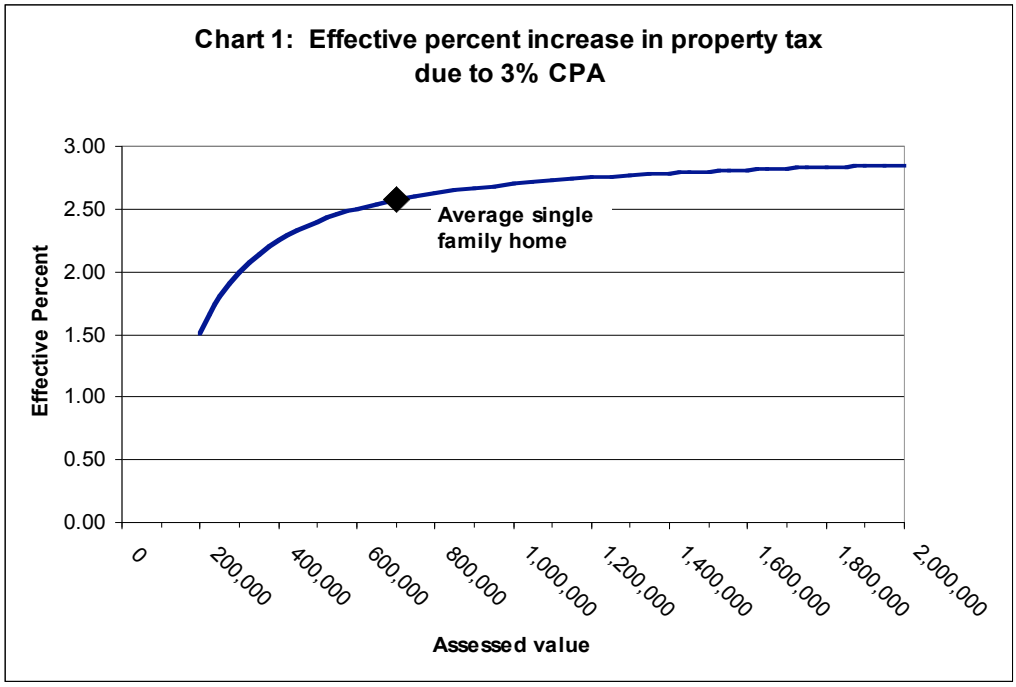
In Lexington, as in other towns, the approval of the distribution of CPA funds begins with a 9 person committee, the Community Preservation Committee, composed of one member from each of the Conservation Commission, the Recreation Committee, the Planning Board, the Historical Commission, the Lexington Housing Authority, and the Lexington Housing Partnership. The remaining three at-large members will be appointed by the Board of Selectmen. Each year, that committee will bring to the Town Meeting a list of projects to be undertaken under the CPA with associated dollar amounts. Town Meeting may approve, disapprove, or approve with a lower, but not higher, funding amount. Town Meeting cannot change the Community Preservation Committee's proposals for how funds are spent.

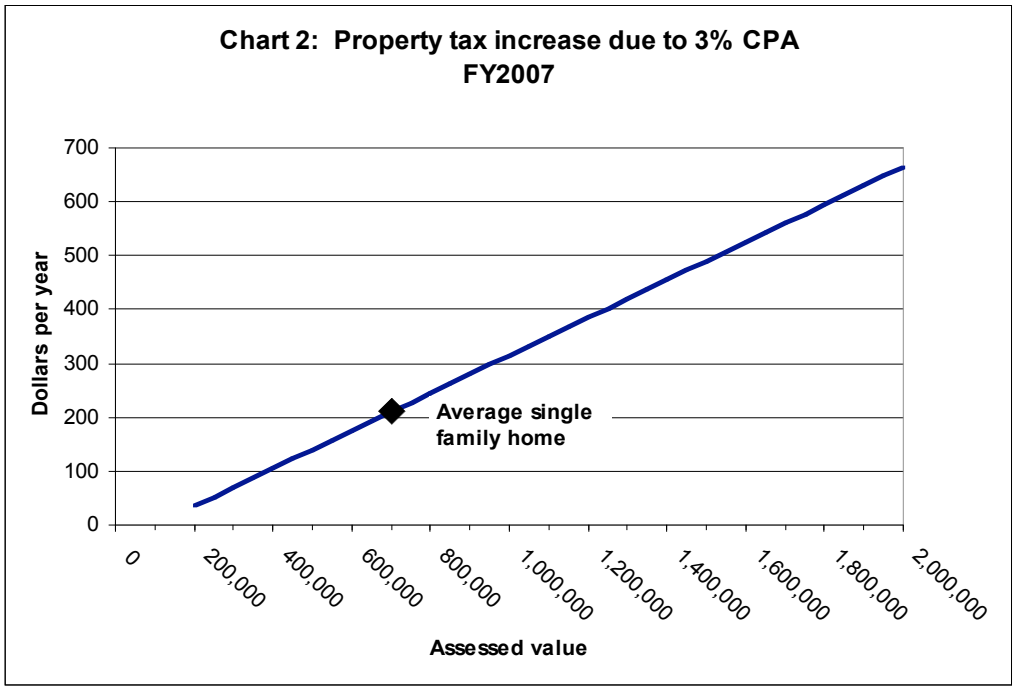
CPA projects must meet State criteria in one of four categories: historic preservation, affordable housing, open-space preservation, and recreation. At least 10% of the CPA funds raised in a given year must be allocated to each of the first three categories. The remaining 70% can be allocated among all four categories in any fashion.

The Community Preservation Committee may propose cash funding or borrowing for these projects. If borrowing is proposed and approved by Town Meeting, the Town becomes obligated to pay off such a bond with CPA funds.

COST TO HOMEOWNERS

If approved by the voters (and until such time as it is amended or repealed by another vote and all funds borrowed under CPA are fully paid off), the CPA will impose a surcharge on the property taxes of residences and businesses. For residences, the exact amount is a surcharge of 3% after applying a $100,000 exemption to the assessed value of the property. (The $100,000 exemption is not available to commercial properties.) Chart 1 depicts the estimated effective percentage surcharges in FY 2007 for varying assessments. In FY 2007, it is estimated that this surcharge will be approximately $210 for the average-assessed single-family home ($696,540 in FY 2006); this is an effective surcharge of 2.57%. The estimated FY 2007 CPA surcharges in dollars are depicted in Chart 2. Please note that these surcharge estimates are slightly higher than those published by *CPA for Lexington* ($210 vs. $199 for the average-assessed home). We have used their $199 estimate, which is calculated using the FY 2006 tax rate, as a base for computing reasonable estimates for FYs 2007–2011 that take into account projected annual growth in the residential tax rate due to new construction and the growth of residential value relative to commercial property value.





EXEMPT TAXPAYERS

When Town Meeting passed the article to put CPA to the voters, exemptions for low-income households were included. These exemptions, which are based on income, age and family size, could allow many Lexington homeowners to qualify to apply for a full refund of their CPA taxes. The table below (provided by *CPA for Lexington*) lists the qualifying income levels:

	Number of people in household				
	1	2	3	4	5
Property owner 60 or older (100% of median income)	$57,800	$66,100	$74,350	$82,600	$89,200
Property owner younger than 60 (80% of median income)	$46,250	$52,850	$59,500	$66,100	$71,350

STATE MATCHING FUNDS

The State will match a percentage of the revenue collected locally through the CPA surcharge. There is a one-year lag in payment of State matching funds, so, for example, Lexington would receive funds from the state in FY 2008 to match the surcharge revenue collected in FY 2007. The State holds funds for CPA use in a dedicated account. Revenue generated through filing fees of $20 for all deeds and $10 for all liens registered anywhere in Massachusetts flows into the account and each year matching funds from the account are distributed to the cities and towns that have approved the CPA and are raising CPA funds locally. The actual percentage of the match in any particular year depends on the balance in the State account relative to the total amount of CPA surcharge revenue received by municipalities. (See section III-B of the MA Dept. of Revenue's CPA guidelines for details of the match-percentage determination rules: http://www.DLS.state.ma.us/PUBL/IGR/2000/00_209amended.pdf.) Since both the rate of collection of filing fees and the number of and sizes of CPA programs will change over time, the matching percentage in future years is uncertain. The State is expected to match 100% of the CPA surcharge revenue raised locally in FYs 2007 and 2008 and is tentatively projected to match 52%, 42%, and 39% respectively, for surcharge revenues raised locally in FYs 2009, 2010, and 2011. However, it is also possible that the State legislature will alter CPA funding to preserve the 100% match.

SAVINGS FROM CPA FUNDING VS. TRADITIONAL FUNDING OF CAPITAL PROJECTS

If the CPA is approved, some of the revenues may be used, in part, to fund some planned projects and parts of projects that would otherwise be funded from non-CPA sources. The use of the CPA to pay for these projects would reduce the need to raise taxes in future years via Proposition 2½ overrides or debt exclusions. In time, this would lower the effective cost of CPA by an amount that could be significant.

In order to get an idea of the magnitude of this effect, we have considered two scenarios, illustrated in Tables 3a and 3b. For simplicity's sake, we have assumed that the CPA will be in effect for five years and that CPA projects will be funded on a cash basis, rather than by borrowing. These assumptions not only help to simplify the analysis, but also tend to maximize the benefit of CPA, since the State percentage match is expected to start declining in several years and is difficult to predict beyond a several-year horizon, and since paying cash for CPA projects will save the Town the interest costs associated with borrowing. As noted earlier, *CPA for Lexington* projections (with input from the *Community Preservation Coalition*) suggest that in the first 5 years, total surcharge revenues in Lexington would be $12.33 million and the State

would match those funds in the estimated amount of $8.06 million (including $1 million expected to be received in FY 2012 as a 39% match of surcharge revenues raised in FY 2011).

Scenario 1 assumes $4.11 million of CPA revenues would be used to fund historic preservation projects in the current capital plan, and the remaining $16.29 million would be used for other qualifying projects that would not otherwise be funded. Scenario 1 is based on a reasonably conservative assumption: that the historic preservation projects in the list published by the *CPA for Lexington* advocacy group are the only projects that would be funded whether or not CPA is approved by the voters. *CPA for Lexington* compiled this list by collecting information from Lexington's 5-year capital plan and other sources. For reference, these historic preservation projects are detailed in Table 5 at the end of this document, where you can see that their total cost excluding any interest is about $4.1 million, and their total cost with interest over the 15-20 year bonding period is about $5.5 million. (Note that only part of the future reconstruction of the school administration building is qualified to be done under the CPA.)

Table 3a summarizes the impact of Scenario 1 on the owner of an average-assessed single-family dwelling in Lexington (hereinafter known as "the average homeowner"). This average homeowner pays property taxes on a home that is currently assessed at $696,540, to which he or she has made no recent additions or improvements. Table 3a illustrates, for example, that in FY 2007, the average homeowner will pay a CPA surcharge of $210. However, his/her net cost will be $208, since the homeowner can expect to see a $2 savings on the rest of his/her tax bill from planned capital projects which would now qualify for CPA funding. Starting in FY 2008, you can see the effect of CPA matching funds from the State. If the CPA program ends after five years, the average homeowner will have paid $1,140 in CPA surcharges and will have seen an approximate $138 reduction in the rest of his/her tax bill. At the same time, the Town will have gained $1,883 in buying power through both the surcharge and the addition of estimated State matching funds through FY 2012. Note the final column in the table: Even though this analysis assumes that the CPA program ends after five years, taxpayers will continue to see a small yearly benefit on their tax bills for up to twenty years (the life of the bonds that would otherwise have been issued to pay for capital plan projects now eligible for CPA cash funding). In Scenario 1, this benefit totals $514 over the entire 15-20 year period (before accounting for the time value of money).

Scenario 2 assumes $4.11 million of CPA revenues would be used to fund historic preservation projects in the current capital plan and $5 million used to purchase open space that would otherwise be approved by the voters for a debt exclusion; the remaining $11.29 million would be used for other qualifying projects that would not otherwise be funded. Scenario 2 is meant to address concerns that Scenario 1 might be too conservative/too pessimistic. There might be other future projects that Lexington residents feel so strongly about that they would fund them with or without CPA. Scenario 2 shows the effect on our analysis if we assume, in addition to the historic preservation projects identified in the capital plan, that CPA funds are also used to make a $5 million purchase of open space which the taxpayers would have otherwise authorized by a FY 2008 debt exclusion override. (For reference, the details of the bonding assumptions are provided in Table 5 at the end of this document.)

Table 3b summarizes the impact of Scenario 2 on the average homeowner. Just as in Scenario 1, at the end of five years the average homeowner will have paid $1,140 in CPA surcharges for which Lexington will receive $1,883 in "buying power" after the estimated State match. However, in Scenario 2, the total capital plan savings benefit for all of the historic preservation projects in Scenario 1 plus a $5 million open-space acquisition is $273 at the end of five years and $1,218 at the end of twenty years. The net cost to the average homeowner is $867 after five years, and at the end of twenty years, the program essentially breaks even (before accounting for the time value of money).

We emphasize that this analysis merely illustrates the implications of two possible scenarios. Different assumptions could be made about the projects that would be funded by the taxpayers in the absence of CPA, or about the cost and timing of the projects assumed for this analysis.

TABLE 3a: Scenario 1
CPA FUNDING & AVERAGE HOMEOWNER'S TAX & BENEFIT

FISCAL YEAR	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	*5 YEAR Total*	*20 YEAR Total*
TOTAL CPA SURCHARGE	$2.30M	$2.38M	$2.46M	$2.55M	$2.64M		*$12.33M*	
AVERAGE HOMEOWNER'S CPA SURCHARGE	**$210**	**$221**	**$228**	**$236**	**$245**		***$1,140***	
AVG HOMEOWNER'S CAPITAL PLAN SAVINGS (HISTORIC PRESERVATION)	$2	$7	$37	$47	$45		*$138*	*$514*
NET COST TO AVG HOMEOWNER	**$208**	**$214**	**$192**	**$190**	**$199**		***$1,002***	***$626***
TOTAL STATE MATCH		$2.30M	$2.38M	$1.28M	$1.07M	$1.0M	*$8.06M*	
PERCENT MATCH (OF PRIOR YEAR'S SURCHARGE)		100%	100%	52%	42%	39%	*65%*	
TOTAL AVAILABLE	**$2.3M**	**$4.7M**	**$4.8M**	**$3.8M**	**$3.7M**	**$1.0M**	***$20.4M***	
AVG HOMEOWNER CPA BUYING POWER	**$210**	**$430**	**$449**	**$355**	**$344**	**$95**	***$1,883***	

TABLE 3b: Scenario 2 (With $5M Open Space Acquisition)
CPA FUNDING & AVERAGE HOMEOWNER'S TAX & BENEFIT

FISCAL YEAR	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	*5 YEAR Total*	*20 YEAR Total*
TOTAL CPA SURCHARGE	$2.30M	$2.38M	$2.46M	$2.55M	$2.64M		*$12.33M*	
AVERAGE HOMEOWNER'S CPA SURCHARGE	**$210**	**$221**	**$228**	**$236**	**$245**		***$1,140***	
AVG HOMEOWNER'S CAPITAL PLAN SAVINGS (HISTORIC PRESERVATION + OPEN SPACE)	$2	$7	$83	$92	$89		*$273*	*$1,218*
NET COST TO AVG HOMEOWNER	**$208**	**$214**	**$146**	**$144**	**$155**		***$867***	***($78)***
TOTAL STATE MATCH		$2.30M	$2.38M	$1.28M	$1.07M	$1.0M	*$8.06M*	
PERCENT MATCH (OF PRIOR YEAR'S SURCHARGE)		100%	100%	52%	42%	39%	*65%*	
TOTAL AVAILABLE	**$2.3M**	**$4.7M**	**$4.8M**	**$3.8M**	**$3.7M**	**$1.0M**	***$20.4M***	
AVG HOMEOWNER CPA BUYING POWER	**$210**	**$430**	**$449**	**$355**	**$344**	**$95**	***$1,883***	

OTHER TAX INCREASES ON THE HORIZON

Projected growth in residential property taxes (before overrides): In FY 2006, the tax increase on single-family homes with no additions or improvements was 5.3%. The increase beyond 2.5% arose primarily from the continued trend of larger increases in residential property values relative to smaller increases (or decreases) in commercial property values. For FY 2007 we have projected a similar percentage increase, before factoring in CPA or a potential operating override.

Debt exclusion override: Last year at Town Meeting, two capital projects were identified as possible subjects for debt-exclusion overrides in the spring or fall of 2006. These are the School Administration Building, only about 1/3 of which can be funded through CPA, and the replacement of the DPW facilities at 201 Bedford St. The principal amount for these two projects is expected to be up to $25 million and would be financed through bonds to be repaid over twenty years. At present, it is unlikely that these projects will be put to the voters before spring 2007 and their first tax impact wouldn't be felt until FY 2009. For already approved debt-exclusion projects, we have assumed level debt service in FYs 2007–2011 for purposes of this analysis.

Proposition 2½ override: Preliminary estimates (made in late January 2006) of the FY 2007 budget gap range from $3 million to $7 million. Therefore, it appears likely that an operating override referendum will be put to the voters this June. The Appropriation Committee estimates that for each $1 million of operating override, the incremental cost to the average homeowner with an assessed value of $696,540 would be about $82 in FY 2007.

Table 4 shows, for a range of residential-property assessments, the expected FY 2007 residential-property tax without an override (column 2). The incremental increase in the residential property tax for each $1 million of potential operating override appears in column 3. [Note that passage of an operating override will also slightly increase the CPA surcharge, which is applied against the total tax (after exemptions). For each $1 million of operating override, the additional CPA tax on the average-assessed home will be around $3.]

TABLE 4

ESTIMATED FY 2007 TAX ON UNIMPROVED SINGLE FAMILY HOME BASED ON FY 2006 EVALUATION

Single Family Home Valuation	Single Family Home FY2007 Real Estate Tax Before Override	Single Family Home Est. FY2007 Tax Increase for Each $1M of Operating Override
$200,000	$2,340	$23
$300,000	$3,510	$35
$400,000	$4,680	$47
$500,000	$5,849	$59
$600,000	$7,019	$70
$700,000	$8,189	$82
$800,000	$9,359	$94
$900,000	$10,529	$106
$1,000,000	$11,699	$117
$1,500,000	$17,548	$176
$2,000,000	$23,398	$235

TABLE 5 (Reference Detail for Scenarios 1 & 2)

Project	CPA Amount 2007-2011	Assumed Capital Bonding	Bond Maturity (Yrs.)	Long Term Bond %	2007	2008	2009	2010	2011	Total first 5 years	Total Interest + principal 2007-2028	Year of bonding/ cash
Structural/systems eval. of Historic Bldgs.	$20K	$0	0		$20K						$20K	2007
Town Office Building	$75K	$0	0			$75K					$75K	2008
Police Station	$1,900K	$1,900K	15	5				$222K	$215K		$2,660K	2009
Fire Station Headquarters	$110K	$110K	5	5			$28K	$26K	$25K		$127K	2008
Munroe Arts Building	$500K	$500K	10	5			$75K	$73K	$70K		$638K	2008
Burial Ground refurbishment	$210K	$210K	5	5			$53K	$50K	$48K		$242K	2008
Visitor Center repairs/upgrade	$100K	$100K	0				$100K				$100K	2009
Buckman Tavern Heating System	TBD	TBD										
School Administration Building (portion qualifying for CPA)	$1,200K	$1,200K	15	5			$140K	$136K	$132K		$1,680K	2008
Total Historic Preservation	$4,115K											
Amount spent using capital plan					$20K	$75K	$395K	$507K	$491K	$1,488K	$5,541K	
Ave. Single Fam. Home Benefit					$2	$7	$37	$47	$45	$138	$514	
Open Space Acquisition	$5,000K	$5,000K	20	5								
Amount spent using capital plan							$500K	$488K	$475K	$1,463K	$7,625K	
Ave. Single Fam. Home Benefit							$46	$45	$44	$135		
Total Historic Preservation and Open Space												
Amount spent using capital plan							$895K	$994K	$966K	$2,950K	$13,166K	
Ave. Single Fam. Home Benefit					$2	$7	$83	$92	$89	$273	$1,218	